

The Global Innovation Lab for Climate Finance | Advisors Meeting

3 December 2015

Paris

A meeting organized by Climate Policy Initiative
on behalf of The Global Innovation Lab for Climate Finance

Secretariat Summary

On 3 December in Paris, Lab Advisors selected six ideas to undergo analysis and stress testing under The Lab's Second Cycle (Lab 2.0, 2015-2016). Noting that there was a specific focus on ideas related to adaptation, the Instruments include three focused on enhancing climate resilience ('**Climate Smart Finance for Smallholder Farmers**', '**Oasis Platform for Catastrophe and Climate Change Risk Assessment and Adaptation**', '**Water Financing Facility**') and three mitigation-focused instruments, ('**Indonesian Sustainable Palm Oil Smallholder Facility**', '**Discounting & Mezzanine Facility**', '**Mobilizing Equity to Drive Energy Efficiency Investments**').

Advisors welcomed the strong progress on First Cycle Instruments which have attracted nearly USD \$500 million in seed funding. In selecting the six instruments, Advisors emphasized the need for proposals to demonstrate a clear value-add from The Lab, and potential to catalyze private investment. The six instruments voted in by advisors will now undergo immediate analysis to address concerns raised by Advisors before proceeding to analysis and stress testing in the Instrument Design phase, which will continue until Instruments are presented to Principals and their Advisors for endorsement in April 2016.

[LAB MEETING PHOTOS TO GO HERE]

Meeting Objectives

The first face-to-face Advisors Meeting of the Second Lab Cycle (The Lab 2.0) took place in the margins of the Paris Climate Summit (COP21) on 3 December 2015. The purpose of the meeting was to allow Advisors to explore the pros and cons of the top 12 ideas, previously selected by Advisors from 99 submissions received, and to identify the most promising six, to then undergo intense analysis and stress-testing. The meeting also provided an opportunity to discuss strategic matters related to The Lab 2.0 and beyond, and to welcome two new Lab members (Africa Finance Corporation, and the Brazilian Development Bank).

Lab First Cycle Recap

Dr. Barbara Buchner, representing the Lab Secretariat, opened by providing a brief update to report on the progress of The Lab's *First Cycle* (Lab 1.0, 2014-2015) instruments.

Overview Lab 1.0 Instruments	Instrument Progress
<p>Energy Savings Insurance</p> <p>An insurance product that covers the expected value of savings generated by energy efficiency investments for energy service providers and equipment providers.</p>	<ul style="list-style-type: none"> •Pilot in Mexico, led by IADB with support from the Danish Energy Agency, which will stimulate USD \$25 million in investment by 2020 •Expansion underway to replicate in Latin America
<p>Climate Investor One</p> <p>Combines three innovative investment facilities into one to finance early-stage development, construction, and refinancing in order to fast-track renewable energy projects in developing countries.</p>	<ul style="list-style-type: none"> •Launched on 2 Dec 2015 at COP21 •Pilot being taken forward by FMO & Phoenix InfraWorks •UK committed GBP £50 million •€50 million commitment from the Dutch government •USD \$450 million in strong interest
<p>Agricultural Supply Chain Adaptation Facility</p> <p>A value chain finance platform where multilateral development banks partner with agribusiness companies to provide technical assistance and finance for climate-resilient investments to the farmers in their supply chains.</p>	<ul style="list-style-type: none"> •Strong interest from potential corporate partners as a first step to a pilot •Ongoing piloting of the ECOM Coffee Renovation Facility in Nicaragua
<p>Long-Term Foreign Exchange Risk Management</p> <p>The Long-Term Foreign Exchange Risk Management instrument provides tools to address currency and interest rate risk for climate relevant projects in developing countries, by locking in long-term finance in local currencies.</p>	<ul style="list-style-type: none"> •In discussions with the Rwandan government and utility to launch a pilot •Strong interest from development banks to fund a pilot •€30 million commitment from the German government to instrument implementer TCX for hedging products (announced 4 Dec. 2015)

Lab Second Cycle Instrument Overviews

Chiara Trabacchi and Pdraig Oliver, representing The Lab Secretariat, outlined the top six adaptation/resilience instruments and top six mitigation instruments. Advisors were then invited to join a roundtable discussion, which focused on the specific added value of The Lab, alignment of each idea with Lab criteria – innovative, actionable, catalytic, and transformative – and the potential for generating private-sector investment as well as involving actors currently at the sidelines of climate finance. Following the discussion, Advisors voted to select three instruments of each category (strengths and challenges, as discussed, are noted in the tables below).

Adaptation / Resilience

Final Lab 2.0 Instruments Adaptation	Key Comments
<p>Oasis Platform for Catastrophe and Climate Change Risk Assessment and Adaptation</p> <p>Proposed by Imperial College and Oasis LMF, this idea would develop an open access system that can plug-and-play data to create risk and loss information for the investment and insurance sector to increase households' insurance coverage in Asia.</p>	<ul style="list-style-type: none"> • Strengths: Advisors underscored the critical role that access to good data plays to the provision of insurance in developing countries. Advisors agreed that this idea is potentially of interest to insurance companies, and that the potential was strengthened by the depth of experience of the proponents. • Challenges: Advisors were concerned end-users may not understand the value of data or issues associated to data protection.
<p>Climate-Smart Finance for Smallholder Farmers</p> <p>Proposed by F3 Life, this idea would provide climate-smart credit scoring, including a credit scorecard, loan tracking, and monitoring software to encourage smallholder farmers' adoption of new climate-smart agricultural practices/technologies and overcome their lack of access to capital.</p>	<ul style="list-style-type: none"> • Strengths: Advisors favored the simplicity of 'baking in' climate-smart conditions into loans for smallholders and saw significant potential and interest for its application. • Challenges: Advisors raised concerns about enforcement of the loan conditions and challenges in the engagement of local financial institutions.
<p>Water Financing Facility</p> <p>Proposed by the Dutch Ministry of Foreign Affairs, this idea would issue "water bonds" and provide technical assistance to raise funds for investments in, and the set-up of, bankable water projects. Bonds would have a fixed return for private investment and would be offered through a pooled fund that diversifies project risks.</p>	<ul style="list-style-type: none"> • Strengths: Advisors expressed that this idea held significant potential for private sector engagement in water projects and could therefore potentially be quite catalytic, addressing the water-energy nexus. • Challenges: Advisors discussed perceived political challenges with local governments and utilities in the implementation area.

Mitigation

Final Lab 2.0 Instruments Mitigation	Key Comments
<p>Indonesian Sustainable Palm Oil Smallholder Facility</p> <p>Proposed by Institute Deliverologi Indonesia and Forest Carbon, this idea aims to double the efficiency and productivity of small-scale certified palm oil farmers to reach national 2020 production targets by providing a land use fund with significant technical assistance to intensify productivity on degraded land, protect forests, and rehabilitate existing plantations in protected areas.</p>	<ul style="list-style-type: none"> • Strengths: Advisors discussed the impacts of the palm oil sector on deforestation and global emissions warranted attention at scale, and agreed the potential for benefits of solutions addressing challenges within the value chain is high. • Challenges: Advisors agreed that land tenure, risk of further deforestation for the purpose of palm oil production, and other issues meant the idea could be challenging, but noted the current support for action from the private sector in this area.
<p>Mobilizing Equity to Drive Energy Efficiency Investments</p> <p>Proposed by the Inter-American Development Bank, this idea is a tiered equity fund that mobilizes investments into small and medium enterprises and real estate, while a parallel equity guarantee facility mobilizes investments at the asset level. It aims to mobilize private capital at scale for energy efficiency financing in emerging economies.</p>	<ul style="list-style-type: none"> • Strengths: Advisors expressed the important role energy efficiency plays in supporting global mitigation efforts. They also felt this instrument had strong potential to mobilize capital and bridge the existing energy efficiency financing gap for small and medium enterprises in Latin America. • Challenges: Advisors inquired whether equity represents a key barrier for energy efficiency investments and requested more details about how this instrument would be implemented in practice and about its innovative character, and about its innovative character.
<p>Mezzanine/Discounting Facility</p> <p>Lab Advisors suggested a merger between two similar ideas proposed by IFC. The Discounting Facility would use existing cash flows from small-scale renewable energy projects as collateral for financing the construction of more projects, while the Mezzanine Facility would create a wholesale financing approach for supporting small-scale renewable energy and energy efficiency.</p>	<ul style="list-style-type: none"> • Strengths: Advisors recommended integrating two ideas submitted separately by the same proponents. Both targeted barriers to investments in small-scale renewable energy. Advisors highlighted the replicability and scalability potential of the combined instrument as well as the value added of The Lab for the development of this instrument. • Challenges: Some Advisors expressed concerns regarding the possibility that this instrument could create counterproductive incentives to the market and inquired about its market potential. <p>The Secretariat will explore with instrument proponents the possibility of combining the two facilities.</p>

Strategic issues related to the Second Lab Cycle and beyond

Complementary Projects

Advisors heard updates on two complementary collaborations led by The Lab Secretariat, and discussed linkages with The Global Lab:

- Gireesh Shrimali, Director of CPI in India, reported that the [India Innovation Lab for Green Finance](#) (India Lab), a regionally-focused platform based on the model of The Global Lab, was launched in November, 2015. Advisors voiced interest in The India Lab, and welcomed the opportunity of interaction to ensure that lessons, expertise and potentially instruments of The Lab can help move The India Lab towards action.
- In September 2015, CPI was invited to serve as Secretariat for the [Finance for Resilience \(FiRe\)](#) platform, which had previously been incubated by BNEF. FiRe is broader in scope than the Global Lab, focusing on private-sector led interventions in both developed and developing countries. Advisors acknowledged the complementarity of the two initiatives, and welcomed the coordination between the two to direct ideas to the most appropriate outlet and increase the overall impact of both initiatives.

Advisors noted the important role The Secretariat can play in helping expand The Lab model to other regions and thematic concentrations, including geographically on Africa and thematically on cities, while noting the importance to focus on the objectives of The Global Lab first.

Lab Membership

Advisors also discussed a strategy for expanding membership to improve The Lab's internal expertise and external network, noting that the addition of insurance, consumer products and technology companies would be welcome additions, particularly from the developing world. The Secretariat will circulate a membership proposal for discussion at a later date.

Next Steps

While there was consensus among the Advisors that all six final ideas were promising, there was some concern expressed about some of their features as regards their viability. In order to address this, and further ensure the quality of the Lab's recommendations, the Secretariat will lead an initial scoping process with proponents for each idea, to take place between mid-December 2015 and mid-January 2016, and ask Lab Advisors' input to this process. The Secretariat will then review the results with Lab Advisors in January 2016 to ensure The Lab only takes ideas forward into the Instrument Design phase that address any outstanding concerns and meet the overarching Lab criteria.

Lab Principals, supported by their Advisors, will then meet in April once the Instrument Design phase concludes to endorse their final Lab Instruments. The Secretariat will circulate options for the April meeting shortly.

Final Remarks

Lab funders gave closing reflections on the meeting, which included optimism about The Lab's growing maturity, eagerness to being a part of the instrument development phase for Lab 2.0 and praise for Climate Policy Initiative as the Secretariat. Dr. Buchner then closed the meeting by thanking the Advisors for their commitments to The Lab, and their active participation in the Meeting, and reiterated that the Secretariat will continue to explore opportunities to expand the impact of The Lab, including by:

- Exploring how to further make use of the long list of Lab submissions (e.g., enabling 'matchmaking');
- Revisiting the Lab criteria and their definitions to ensure that its ultimate goals are met most effectively;
- Investigating thematic and regional concerns, while keeping a strong focus on The Lab's core objectives and processes.